RECORD AND BRIEFS

No. 16-712

FILED

In The

Supreme Court of the United States

OIL STATES ENERGY SERVICES, LLC,

Petitioner,

v.

GREENE'S ENERGY GROUP, LLC, et al.,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

REPLY BRIEF FOR THE PETITIONER

C. ERIK HAWES
WILLIAM R. PETERSON
MORGAN, LEWIS & BOCKIUS LLP
1000 Louisiana Street,
Suite 4000
Houston, Texas 77002
T. 713.890.5000
F. 713.890.5001

ALLYSON N. HO
Counsel of Record
JOHN C. SULLIVAN
MORGAN, LEWIS &
BOCKIUS LLP
1717 Main Street,
Suite 3200
Dallas, Texas 75201
T. 214.466.4000
F. 214.466.4001
allyson.ho@morganlewis.com

Counsel for Petitioner

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

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REPLY BRIEF FOR THE PETITIONER

The constitutionality of *inter partes* review turns on whether a suit seeking to invalidate a patent involves "matter which, from its nature, is the subject of a suit at the common law, or in equity, or admiralty" or merely involves "'public rights' that Congress could constitutionally assign to 'legislative' courts for resolution." *Stern* v. *Marshall*, 564 U.S. 462, 484, 485 (2011).

The importance of this issue is uncontested. If petitioner is correct, then Congress has, in violation of Article III, permitted an executive agency to adjudicate issues of enormous significance to the national economy, wrongfully depriving patent owners of property worth billions of dollars. See Pet. at 21. Given its unquestionable practical and legal importance, the question whether *inter partes* review complies with Article III warrants certiorari.

The Court may also wish to consider certiorari on the other two questions. In persuading this Court to uphold the "broadest reasonable interpretation" standard in *Cuozzo Speed Technologies, LLC* v. *Lee*, 136 S. Ct. 2131 (2016), the government argued that this standard should apply "when it is possible for claim amendments to be made." Oral Argument at 29:30, *Cuozzo Speed Techs., LLC* v. *Lee*, 136 S. Ct. 2131 (2016) (No. 15446). But as petitioner demonstrated (at 19-26), the Board has adopted standards that make amendment practically impossible. The Board's nullification of the amendment scheme created by Congress deserves review in this Court.

Finally, the "broadest reasonable interpretation" standard needs clarification. Panels of the Federal Circuit have divided in their application of traditional principles of claim construction to the "broadest reasonable interpretation," and guidance from this Court would be valuable.

I. This Court Should Address Whether *Inter Partes* Review Satisfies Article III.

The question whether the executive branch exercises "the judicial power of the United States" in *inter partes* review proceedings deserves review in this Court. It is a constitutional issue implicating the basic framework of our government. The legal and practical importance is unquestionable.

Respondent argues (at 6-14) only that certiorari should be denied because the judgment below is correct. But these merits arguments are no reason to deny certiorari. If anything, they highlight that the constitutionality of *inter partes* review is an issue of substantial importance that has not been but should be decided by this Court.

A. The Importance And Ripeness Of This Issue Are Undisputed.

The petition details (at 32-35) the importance of the constitutionality of *inter partes* review. The Board has overturned nearly 80 percent of the patents it has reviewed, significantly affecting the economy and

American business. See Pet. at 33 ("According to one estimate, *inter partes* review has, thus far, destroyed $546 billion of the United States economy by invalidating patents, and wiped out about $1 trillion in value by devaluing the companies holding those patents."). The constitutionality of *inter partes* review is at issue in every one of thousands of proceedings. Respondent does not disagree. The practical importance of the issue is incontestable.

The same is true of its legal importance. Petitioner's arguments are based on Article III of the Constitution and the basic structure of the federal government. Deciding this case will require this Court to consider and enforce the proper boundaries between the executive and judicial branches, defining what decisions Congress may remove from the courts.

The question is fully ripe for resolution. The Federal Circuit set forth its definitive view that *inter partes* review is constitutional in *MCM Portfolio LLC* v. *Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015), and has shown no inclination to reconsider this holding. See Pet. App. 37-38 (denying rehearing en banc). No circuit split could possibly develop. If this Court denies review, then the Federal Circuit will have the last (and only) word on an important question of constitutional law.

No further percolation is warranted. The Article III question should be resolved by this Court, and it should be resolved in this case.

B. Respondent's Merits Argument Only Confirms The Certworthiness Of The Issue.

Respondent suggests only a single reason that certiorari should be denied: The judgment below is correct. E.g., Br. at 2-3 (arguing that the Federal Circuit "correctly held" that *inter partes* review complies with the Constitution). Respondent's merits argument is, of course, no reason to deny certiorari. Whether the Federal Circuit was right or wrong, the issue warrants resolution by this Court.

And the Federal Circuit was wrong. Article III vests the "judicial power" in the judicial branch, and "Congress may not 'withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity, or admiralty.'" *Stern*, 564 U.S. at 484 (quoting *Murray's Lessee* v. *Hoboken Land & Improvement Co.*, 59 U.S. 272, 284 (1855)).[1]

Petitioner (at 12-13) and respondent (at 9) agree that actions seeking annulment or cancellation of patents would have been brought in courts of equity.

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[1] As respondent acknowledges (at 3-4), whether *inter partes* review complies with Article III is a predicate question to determining whether it complies with the Seventh Amendment. This Court could either grant certiorari to consider only the Article III issue or could consider both Article III and the Seventh Amendment.

Congress cannot withdraw such suits from the judiciary and reassign them to the executive. *Stern*, 564 U.S. at 484.

Respondent appears to argue that Article III does not apply to suits in equity. See Br. at 9-10 ("Article III would pose no impediment to *inter partes* review because actions seeking annulment or cancellation of patents * * * were decided by courts of equity."); *id.* at 11 ("Even if *scire facias* provided a useful analogy to inter partes review, however, '[t]he *scire facias* to repeal a patent was brought in chancery' rather than in law."). But respondent offers no support for this novel proposition, and this Court has held that Article III forbids Congress "to withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit * * * in equity." *Stern*, 564 U.S. at 484 (quoting *Murray's Lessee*, 59 U.S. at 284). Respondent's argument that suits to annul patents would have been brought in courts of equity is no answer to Article III.

Respondent may have misread *Stern*. The fact that a suit "made of 'the stuff of the traditional actions at common law tried by the courts at Westminster in 1789' " must be tried in an Article III court, *Stern*, 564 U.S. at 484 (quoting *N. Pipeline Constr. Co.* v. *Marathon Pipe Line Co.*, 458 U.S. 50, 90 (1982) (Rehnquist, J., concurring in judgment)), does not imply that Article III applies only to such suits. If they were historically tried in courts of equity, then the Patent and Trademark Office impermissibly exercises "the judicial power of the United States" by deciding them.

Respondent also argues (at 8-11) that patents are "public rights," which may be adjudicated outside an Article III forum. This Court has recognized that the "public rights" doctrine permits Congress to assign cases outside the judicial branch for resolution while acknowledging the uncertain scope of this exception: "[O]ur discussion of the public rights exception * * * has not been entirely consistent, and the exception has been the subject of some debate[.]" *Stern*, 564 U.S. at 488.

In *Stern*, this Court contrasted cases arising "between the Government and persons subject to its authority in connection with the performance of the constitutional functions of the executive or legislative departments" with cases "that were instead matters 'of private right, that is, of the liability of one individual to another under the law as defined.'" *Id.* at 489 (quoting *Crowell* v. *Benson*, 285 U.S. 22, 50, 51 (1932)).

Inter partes review does not fit neatly into either category. Although the process formally involves reconsideration of the executive branch's decision to issue a patent, the initiation of review by adversarial parties and their participation in the process transforms *inter partes* review (as respondent recognizes at 20) into "a litigation-like proceeding." The statute recognizes that *inter partes* review will often be initiated by an accused infringer. See 35 U.S.C. § 315(b) ("An inter partes review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a

complaint alleging infringement of the patent."); *id.* § 315(a)(2) (providing for a stay of a civil action). And in practice, *inter partes* review is initiated most often by parties accused of infringing a patent. See, e.g., Matt Cutler, *3 Years of IPR: A Look at the Stats*, IPLAW360 (Oct. 9, 2015), http://www.law360.com/articles/699867/3-years-of-ipr-alook-at-the-stats ("Over 80 percent of IPR filings are associated with co-pending federal court litigation."). *Inter partes* review thus determines "the liability of one individual to another."

The plurality opinion in *Northern Pipeline* states that the public rights exception extends "only to matters that historically could have been determined exclusively by [the political branches of government]." 458 U.S. at 68 (plurality opinion). Petitioner (at 12-13) and respondent (at 9) have identified only one historical analogue of an adversarial proceeding to adjudicate patent validity: the English writ *scire facias* awarded by Chancery courts.[2] There is no historical precedent for the executive branch adjudicating patent validity in an adversarial, "litigation-like" (Br. at 20) proceeding.

Respondent argues (at 8, 10) that patents must be public rights (rather than private property) because they "exist only by virtue of a federal statutory scheme." But this argument proves far too much.

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[2] Respondent rejects (at 9) the analogy but does not identify any other historical adversarial proceeding (other than infringement suits) in which patent validity was adjudicated.

Property interests are frequently grounded in laws and regulations. E.g., *Texaco, Inc.* v. *Short*, 454 U.S. 516, 526 (1982) ("[A] State may create a property interest that is entitled to constitutional protection."). "Because the Constitution protects rather than creates property interests, the existence of a property interest is determined by reference to 'existing rules or understandings that stem from an independent source such as state law.'" *Phillips* v. *Wash. Legal Found.*, 524 U.S. 156, 164 (1998) (quoting *Bd. of Regents of State Colls.* v. *Roth*, 408 U.S. 564, 577 (1972)). The mere fact that a property interest arises out of federal law cannot make that interest a "public right."

This Court has long held that patents constitute private property: "[B]y the laws of the United States, the rights of a party under a patent are his private property." *Brown* v. *Duchesne*, 60 U.S. 183, 197 (1856); see also *Consol. Fruit-Jar Co.* v. *Wright*, 94 U.S. 92, 96 (1876) ("A patent for an invention is as much property as a patent for land"). The fact that federal law creates private property interests does not permit the executive branch to displace the judicial in cases involving those interests.

Respondent has no answer to (and does not even cite) this Court's decision in *McCormick Harvesting Mach. Co.* v. *C. Aultman & Co.*:

> [After a patent has been issued by the patent office,] it * * * is not subject to be revoked or canceled by the president, or any other officer

> of the government. It has become the property of the patentee, and as such is entitled to the same legal protection as other property.
>
> The only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent.

169 U.S. 606, 608-09 (1898) (internal citations omitted). This Court has never overruled or retreated from this holding.[3]

Similarly, any number of federal causes of action "exist only by virtue of a federal statutory scheme." By statute, Congress may create new rights and liabilities that did not exist at common law, but an adjudication of rights between individuals still constitutes a "matter which, from its nature, is the subject of a suit at the common law, or in equity, or admiralty." *Stern*, 564 U.S. at 484.

In sum, the proper bounds of "the judicial power of the United States" are a matter of grave constitutional concern, which this Court—not the Federal Circuit—should decide. The practical consequences of *inter*

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[3] The Federal Circuit has characterized *McCormick* as merely describing the law under existing statutes. *MCM Portfolio LLC*, 812 F.3d at 1289. This is an implausible reading. The language used by this Court—"[A patent] has become the property of the patentee, and as such is entitled to the same legal protection as other property."—strongly indicates that the holding concerns constitutional protections of patents and patent owners. See *McCormick*, 169 U.S. at 609.

partes review are indisputable, and respondent identifies no vehicle problems (there are none) that would interfere with consideration of the issue in this case. Certiorari should be granted.[4]

II. Alternatively, The Court Should Grant Certiorari To Review The Board's Denial Of The Motion To Amend.

If the Court does not review whether *inter partes* review complies with the Constitution, then it should still review the procedures imposed by the Board.

Again, respondent answers on the merits, arguing (at 16-29) that the Board's procedures survive scrutiny under *Chevron, U.S.A., Inc.* v. *Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984). But respondent cannot deny (and does not even address) that experience has proven the Board's amendment procedures to be illusory. As petitioner explained (at 23), in thousands of *inter partes* review proceedings over a three-year period, only three opposed motions to amend succeeded.

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[4] As a predicate matter, the Court may wish to ask respondent U.S. Patent and Trademark Office—which waived a response on December 12, 2016—to respond to the petition as well. The PTO intervened in this case in the Federal Circuit primarily to defend the constitutionality of *inter partes* review, but the Federal Circuit resolved that issue in *MCM* during the pendency of briefing in the instant case.

Even if, as respondent argues (at 16-29), each individual procedural rule adopted by the Board survives scrutiny when viewed in isolation, the combination creates a draconian system that effectively eliminates the statutory right to amend created by Congress. Respondent cannot defend the amendment process as a whole.

This Court's decision in *Cuozzo* underscores the need for review. The government argued to this Court that the "broadest reasonable interpretation" standard should apply "when it is possible for claim amendments to be made." Oral Argument at 29:30, *Cuozzo Speed Techs., LLC* v. *Lee*, 136 S. Ct. 2131 (2016) (No. 15446). But under the Board's regulations, amendment is practically impossible. The Court should grant review to hold that the Board cannot nullify the opportunity for amendment established by Congress.

Respondent's waiver arguments (at 15-16) are baseless. Before the Federal Circuit, petitioner argued, at length, that "the Board erred in denying Oil States' motion to amend," Br. of Appellant at 43-51, including arguing that the Board's requirements for amendment "were imposed *sua sponte* during an oral hearing." *Id.* at 44.

And with respect to the "broadest reasonable interpretation" standard, respondent misunderstands (at 15, 29) the petition. Petitioner does not argue that *Cuozzo* (and the "broadest reasonable interpretation standard") should be overturned but argues instead

(at 24-25) that this standard is premised on the existence of a meaningful opportunity to amend, which does not exist under the Board's regulations.

If this Court does not review the constitutionality of *inter partes* review, then it should grant review to afford patent owners a meaningful opportunity to amend claims during *inter partes* review, as required by Congress.

III. This Court Should Grant Certiorari To Clarify The Interaction Of Traditional Principles Of Claim Construction And The "Broadest Reasonable Interpretation."

The Court should also grant certiorari to clarify how the "broadest reasonable interpretation" standard interacts with traditional principles of claim construction.

As petitioner explained (at 26-32), panels of the Federal Circuit have struggled with balancing traditional principles of claim construction with the "broadest reasonable interpretation" in *inter partes* review. Petitioner identified the specific principle that the Board failed to apply in this case: "[T]he Board's analysis did not consider disparagement by the '053 Patent—dispositive on this issue—in its claim construction." Pet. at 30.

Respondent attempts (at 30-33) to defend the Board's decision on the merits. But respondent cannot claim that the Board considered disparagement in its

construction. The word "disparage" appears only *once* in the Brief in Opposition: "[A]ccording to Petitioner, the PTO needs to adopt its narrow construction of the term because the '053 patent disparaged certain prior art devices." Br. at 30.

Petitioner's argument thus goes unanswered: The Board's conclusion that "the patent claims should be construed to include the same two aspects of the prior art that the patent disparaged" is "directly at odds with * * * traditional principles of claim construction." Pet. at 30.

This makes the case a strong vehicle to clarify whether and how traditional principles of claim construction apply under the "broadest reasonable interpretation" standard. As this case illustrates, whether these traditional principles apply will often determine a patent's validity, and the answer to this question should not vary from panel to panel of the Federal Circuit.

CONCLUSION

The petition should be granted or, in the alternative, the case should be held pending further guidance from the Federal Circuit.

Respectfully submitted,

ALLYSON N. HO
Counsel of Record
JOHN C. SULLIVAN
MORGAN, LEWIS & BOCKIUS LLP
1717 Main Street, Suite 3200
Dallas, Texas 75201
T. 214.466.4000
F. 214.466.4001
allyson.ho@morganlewis.com

C. ERIK HAWES
WILLIAM R. PETERSON
MORGAN, LEWIS & BOCKIUS LLP
1000 Louisiana Street, Suite 4000
Houston, Texas 77002
T. 713.890.5000
F. 713.890.5001

Counsel for Petitioner